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**Top Secret**



# Weekly Review

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May 9, 1975

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Review.

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Da Nang after the fall

## Vietnam: Solidifying Power

The communists have acted quickly to squash any resistance by former South Vietnamese troops, and they appear to be achieving an orderly transition of power in Saigon as well as in the countryside. Soon after the capital fell on April 30, the new "revolutionary administration" issued tough directives concerning security, weapons collection, and public property.

A curfew was put into effect immediately, civil servants were told to return to their jobs, and former government officials and the military were ordered to turn in their weapons and equipment and to register. The communists have since extended the deadline for completing this to the end of May. The directives promise lenient treatment and rewards for those who

cooperate but threaten "severe punishment" for those who do not.

There is no evidence of large-scale organized resistance to the communists, but pockets still exist in scattered areas. Most South Vietnamese seem to realize that continued opposition will lead to harsh reprisals by the North Vietnamese forces.

The communists are detaining senior military officers and releasing those of lower rank and most enlisted personnel. Communist media indicate that some captured officers are being indoctrinated in "re-education camps" before they are released for employment in new jobs. One report notes that some former military

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personnel are assisting the communists by repairing US-made weapons, such as tanks and artillery pieces.

The communists have taken a number of steps to restore some sense of normalcy to Saigon. Many civil servants and municipal employees have returned to work, and communist media claim that all public utilities are now in operation. Radio and television broadcasts were resumed shortly after the communist takeover, and a new daily newspaper, the *Saigon Liberation Daily*, has been published since May 4. The new administration has also announced that it has reopened Tan Son Nhut airfield, but only North Vietnamese transports have used it so far. The communists are using existing South Vietnamese labor unions as a mechanism for gaining control over organized labor in Saigon.

Last weekend, the communists announced the formation of an 11-man "military management committee" to oversee the occupation and administration of Saigon. It is headed by General Tran Van Tra, who has been in command of North Vietnamese and Viet Cong forces in the southern part of the country, and who can now call on these large military forces to support his efforts.

#### First Words to the Neighbors

The communists have also taken a tough stance in the diplomatic arena, pressing several

nearby Southeast Asian countries to return US-supplied aircraft and ships used by fleeing South Vietnamese. The communists have sent formal notes to Thailand, Singapore, Malaysia, and the Philippines demanding the return of this equipment. Hanoi has particularly focused on the Thai. A *Nhan Dan* editorial warned, "The Vietnamese people can postpone considering other problems created by the Thai military dictatorial regime, but will never give up consideration of the present issue." Privately, Hanoi is linking the return of the equipment to the "normalization of Thai-Vietnamese relations."

Hanoi's demands have created a dilemma for Bangkok, which is eager to establish diplomatic relations with the communists. Some Thai leaders want to respond positively to the communist request for the return of the aircraft, but others are disturbed by the prospect of providing North Vietnam with weapons that could someday be used against Thailand. Since the US has claimed ownership of the equipment, the Thai government is concerned that returning the aircraft to the communists would seriously damage US-Thai relations. For the present, the Thai government will probably try to stall for time by bringing up such long-standing issues as the repatriation of Vietnamese from Thailand, but in the end, Bangkok may agree to turn over at least a token number of aircraft to accommodate Hanoi.

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## Laos: Coalition in Jeopardy

Recent communist victories in South Vietnam and Cambodia have had a devastating emotional and psychological impact on the non-communist leadership in Laos. The non-communists are coming to believe that a Pathet Lao "victory" in Laos is inevitable and that it is futile to resist on either the political or the military front. This defeatist attitude could lead to a rapid unraveling of the 13-month-old coalition government and the passage of political power to the Pathet Lao by default.

Senior non-communist political and military leaders are convinced that the Pathet Lao, emboldened by communist battlefield successes elsewhere in Indochina and encouraged by Hanoi, have adopted a much more aggressive posture in Laos. As evidence, they point to the recent Pathet Lao cease-fire violations in the Sala Phou Khoun area of northern Laos. On the political front, they cite intensified Pathet Lao efforts to whip up popular support—most recently manifested by the large-scale May Day

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demonstrations in Vientiane—for the ouster of key rightist and other non-communist leaders who oppose communist coalition policy objectives. They also point to Pathet Lao efforts to foment civil unrest in non-communist - controlled urban areas.

A growing number of prominent and influential non-communist cabinet ministers and general officers have been seriously intimidated by these Pathet Lao - inspired demonstrations and, to an even greater extent, by rumors that Lao communist headquarters in Sam Neua has ordered the "elimination" of key rightist leaders. The assassination in Vientiane on May 6 of several low-ranking rightists, including close relatives of prominent southern rightist power-brokers Defense Minister Sisouk and Prince Boun Oum na Champassak, has greatly exacerbated these fears—although there is still no evidence that the Pathet Lao were actually involved.

Many leading non-communist coalition officials and military leaders, including General Vang Pao, are seriously considering resigning from office and perhaps leaving the country altogether. They have lost all confidence in Prime Minister Souvanna Phouma and believe he has sold out their interests to the Pathet Lao. Souvanna, in turn, has requested the resignation of General Kouprasith and several other high-ranking non-communist officers and ordered the firing of Vang Pao and the Vientiane region military commander.

Perhaps most important, the non-communists are firmly convinced that they cannot depend on the US to preserve coalition stability and Lao neutrality, citing as proof the refusal of the American Congress to provide emergency assistance to the Saigon and Phnom Penh regimes in their moment of greatest need.

### The Lao Communists

While the current fighting at Sala Phou Khoun represents the most serious and sustained cease-fire violation since the February 1973 military standdown went into effect, there is still no hard evidence that either the Pathet Lao or their North Vietnamese backers have consciously decided to scuttle the coalition in favor of a military solution. Communist Deputy Prime Minister Phoumi Vongvichit recently assured the Lao diplomatic corps that, while military incidents such as the fighting at Sala Phou Khoun were inevitable, war would not be resumed in Laos.

Indeed, a case can be made that the communists are satisfied with the coalition government's evolution, which they see as moving inexorably in their favor. The Pathet Lao have maintained a firm hold on the political initiative since the coalition's formation, and virtually all of their major policy proposals have been adopted. Moreover, in Prime Minister Souvanna the communists have a coalition leader who has yielded to their views on most of the important issues confronting the government. Additionally, it would appear to make little sense for the Pathet Lao to have taken the unprecedented step of inviting King Savang to spend a week in Sam Neua if they were on the verge of renewing major hostilities.

It is possible, however, that the communists may now be embarked on a course designed to bring about a quick defeat of the non-communists and a scrapping of the coalition arrangement. The Pathet Lao and the North Vietnamese have obviously been encouraged by communist success elsewhere in Indochina. Given the demoralization and disarray among the non-communists, the communists may now consider that the time is ripe to strike for total control.

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## USSR-INDOCHINA

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### Supporting Vietnam...

The Soviet press continues to hail the victory of the "liberation forces" in Vietnam, while stressing the importance of Moscow's support. Hanoi is certain to have been impressed by how quickly Moscow responded to North Vietnam's requests for assistance in South Vietnam.

expulsion from Phnom Penh of the seven remaining Soviet citizens. Moscow was eager to establish close ties with the Khmer communists and will regard the Cambodian action as a blow to its hopes of challenging Chinese influence in Cambodia. In all their commentary, the Soviets are still treating the US lightly. They may be concerned that a rapid US withdrawal from the entire Southeast Asian region will leave a vacuum that China would be better able to fill than the USSR. A Soviet press official, in fact, went so far as to suggest that the USSR sees some future role for the US in Indochina and would be prepared to help the US establish a relationship with North Vietnam.

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### USSR-FEDAYEEN: TOUGH TALKS

Yasir Arafat was in Moscow last week for some tough bargaining as the Soviets pressed him for greater flexibility regarding when and how the Palestinians go to a conference in Geneva. The Soviets may have made some headway, but judging by their treatment of the visit, Moscow apparently did not get as much as it wanted.

Arafat may have made at least one accommodation to Moscow by including in the joint communique wording that would be interpreted as agreeing in principle to Palestinian participation at the conference. Although the Palestinian leaders have for some time been willing to go to Geneva if they received an acceptable invitation, they have avoided any public commitment.

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There was little sign, in the communique or elsewhere, that progress was made on the timing and format of Palestinian participation.

### ...And Challenging China

Regarding Cambodia, there has been no public or private mention by Moscow of the

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parade, but the meeting—their first—was not publicized by the Soviets.

The Soviets apparently encouraged their Czechoslovak allies to give the Palestinians strong support during the delegation's subsequent stop in Prague. The Czechoslovaks explicitly called for PLO participation in Geneva. The Soviets have used such tactics before to assuage the Palestinians, while maintaining their own distance.

The Soviets probably also pressed Arafat to make some gesture toward recognition of Israel that would prevent Israel from boycotting the conference if the Palestinians are invited.

Although the Soviets may have promised Arafat eventual full backing to get him to go to Geneva, they kept him at arm's length during his stay. Moscow continued to avoid recognition of the PLO as sole Palestinian spokesman, and there was no indication of progress toward opening the PLO office in Moscow as agreed to last August. An Arab press report said Arafat had spoken with Brezhnev after the May Day

Soviet efforts to get around the Palestinian roadblock to Geneva may have created new problems between Moscow and Syria and its Palestinian allies. The leader of the Syrian-controlled fedayeen group refused to go to Moscow, publicly criticizing the USSR for offering guarantees to Israel and questioning whether anything could be accomplished at Geneva. This new show of Arab differences will undoubtedly prove frustrating to Moscow and complicate Arafat's ability to make concessions regarding Geneva.

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Arafat and Gromyko during recent Moscow talks



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## SPAIN: TERRORISM AND DISSENT

The government's crackdown on terrorism and dissent is damaging the liberal image Prime Minister Arias wants to project and may increase anti-regime sentiments.

The cabinet on April 25 imposed a three-month "state of exception" in two of the four Basque provinces. This decree permits the police to conduct searches without warrants and to detain suspects indefinitely without regard to the normal requirement of bringing charges within 72 hours. The action was prompted by the slaying of a policeman in Vizcaya, allegedly by the Basque terrorist group, Basque Fatherland and Liberty, and a shootout near the French border between Spanish police and a band of Basque terrorists. Another policeman was killed in Guernica this week, and police have intensified their search for Basque terrorists. Thus far, 55 suspects have been detained.

The conservative press, some military officers, and leaders of the veterans' organizations have reacted favorably. Ordinary Basques

deplore the rise in terrorism but also resent their area being singled out for repressive measures.

May Day and the succeeding weekend brought another series of anti-regime acts that may presage a rise in violence. The most serious was the explosion of a booby-trapped car outside the Madrid stadium where General Franco was attending a May Day rally. It is not clear whether the bombing was an assassination attempt, but it served as an anti-regime protest. There was another automobile explosion near Bilbao, and several fire bombings of business and government establishments occurred in Barcelona and Pamplona.

The police unwittingly enhanced the reputation of the Spanish Socialist Workers Party and its labor union by breaking up a ceremony at the grave of the party's founder and arresting 60 participants. This will lay to rest the canard being circulated by the communist-sponsored Democratic Junta that the party had been benefiting from government tolerance while other opposition groups were being arrested.

Labor unrest has also flared again, with the worst violence at the Renault automobile plant in Valladolid as police evicted striking workers. At the end of April, the new labor minister reportedly asked the cabinet to approve a new draft of a long-promised decree law granting a modified right to strike, but no action has occurred. The government could ease labor tension by holding elections soon for plant representatives in the official syndicates.

Meanwhile, the church issued a pastoral letter last month calling for civil rights for all Spaniards, including the right to strike, and urging special consideration for the rights of such regional groups as the Basques and the Catalans. At a recent symposium in Salamanca, the leader of the Spanish hierarchy, Cardinal Enrique y Tarazona, said the church must avoid close identification with the Franco government and promote changes in society. In the face of such signs of discontent, the government is likely to continue its crackdown on dissent.



Arias

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Cunhal (l) and Soares

## PORTUGAL: INTERPARTY RIVALRY

Antagonism between the Portuguese Socialist and Communist parties erupted last week in a potentially explosive epilogue to the Socialists' recent impressive election victory. After a face-to-face meeting, however, leaders of the two coalition parties announced they had agreed to submerge their differences for the good of the revolution.

Bitter interparty rivalry surfaced at the May Day celebration when the Communist-controlled labor organization, Intersindical, refused to invite the moderate leftist Popular Democratic Party and then tried to prevent the Socialists from entering the stadium where the rally was being held. The Popular Democrats, who finished second in the constituent assembly elections on April 25, were excluded because they allegedly do not represent the workers. They held a separate meeting outside the stadium.

Efforts by Intersindical leaders to prevent Socialist representatives led by Mario Soares from taking their places at the rally created an uproar, which interrupted a speech by Prime Minister Goncalves. The two parties later issued public statements blaming each other for the disruptions.

On the following day, Soares was summoned to a meeting with leaders of the ruling

Armed Forces Movement, prompting speculation that the Socialists might be held responsible. Some 50,000 Socialist demonstrators marched through the streets of Lisbon and past the Prime Minister's office shouting "Socialism yes, dictatorship no."

Early this week, President Costa Gomes held separate meetings with Soares and with Communist Party Secretary General Alvaro Cunhal. Subsequently, delegations from the two parties met and issued a communique stating that they had agreed to cooperate to defend the April 25 revolution—specifically the nationalization and agrarian reform measures. Representatives of the two parties plan to hold further meetings to review prospects for cooperation.

Discord between the Socialists and the Communists has always been close to the surface. This latest flareup, however, was doubtless triggered by the Socialists' impressive election showing, which is viewed as a repudiation of the Communists by the voters. While each party publicly claims that the other is essential to the revolution, the Socialists for some time have been concerned about a communist take-over and have warned repeatedly of this danger. The communists, on the other hand, have done everything to justify Socialist suspicions, wielding their influence with radical military leaders with great effectiveness, as illustrated by the Movement's adoption of the communist position on a number of key issues.

Since the election, the Socialists have wavered between a policy of conciliation toward the Movement and the communists and one of open confrontation. While Soares himself may lean toward the milder approach, some of his more militant followers appear to want to translate the Socialist election victory into clear political gains as rapidly as possible.

The communists, on the other hand, are reassessing the party's orientation in light of its disappointing election showing among the workers. Younger Communist leaders reportedly blame the outcome on the party's tight discipline and Cunhal's close identification with the Soviet Union. These younger leaders are said

to lean toward closer ties with the less dogmatic and more Europe-oriented French and Italian Communist parties.

There are indications that the present agreement to cooperate was made largely to accommodate the Armed Forces Movement, which has expressed considerable impatience with interparty rivalries and even suggested creation of a new party more nearly representing Movement views. Serious differences between the two parties will continue to exist, but the exact nature of interparty relations will be heavily influenced by the Movement itself, which closely controls the access to power and, hence, the relative influence of the political parties.

The talks with Mexico signal the beginning of a new initiative by the EC to improve relations with Latin American states and to guarantee Western Europe access to raw materials. The EC will use the proposed agreement with Mexico as a model in renegotiating existing non-preferential accords with Brazil, Argentina, and Uruguay.

While EC trade with Mexico is rising, overall trade between the Nine and Latin America has decreased substantially over the past year, in part because of the unilateral ban imposed on beef imports by the EC last June. The decision last week to ease these restrictions reflects the community's desire to improve its image as trading partner.

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## EC LOOKS TO LATIN AMERICA

Negotiations between the EC and Mexico on a five-year non-preferential trade agreement went smoothly last week. Signature on a final accord to enter into force next January is expected early this summer. The agreement, which is intended to serve as a model for other Latin American countries, will help Mexico increase its benefits under the EC's scheme of tariff preferences for all developing countries, in part through the work of a joint committee to encourage cooperation and trade diversification.

Latin Americans have also expressed concern that trade preferences recently granted by the EC to 46 developing states—mostly in Africa—under the Lome Convention will result in even greater exclusion from EC markets. Latin Americans are seeking equal access to community markets as a means of reducing trade dependence on the US and improving their balance-of-payments position.

Representatives of the EC and Latin American states will meet next month to discuss the discriminatory effect of the Lome accord on Latin American trade. Several American states are expected to lobby for financial aid and an extension of preferential arrangements to Latin America.

The Mexicans were seeking a more comprehensive economic cooperation agreement, but at present the community's jurisdiction is limited to trade matters. Both sides seem content with a clause enabling their agreement to be expanded gradually as the community achieves greater authority in other areas. The Commission is now requesting authority from the EC Nine to frame an economic cooperation pact with Canada and would prefer to delay intra-EC debate over similar arrangements on behalf of developing countries.

The meeting is viewed by several Latin American states, Brazil in particular, as a step toward improving political as well as economic relations with Western Europe. EC Vice President Soames conveyed a similar interest during his visit to Mexico last month, although trade matters will probably dominate discussions during his scheduled tour of five or six Latin American states in September.

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## YUGOSLAVS IMPROVE AIR DEFENSE

Soviet SA-6 and SA-7 surface-to-air missiles recently acquired by Yugoslavia will give its armed forces a more balanced and effective air defense capability. US attaches in Belgrade identified eight SA-6 transporter-erector launchers with missiles on April 27 during an army rehearsal for Yugoslavia's Victory Day parade, and earlier in April saw the shoulder-fired SA-7 missile. This is the first time either missile has been identified in Yugoslavia. SA-3 equipment was observed there for the first time [redacted]

The Soviets are supplying these missiles probably under a credit agreement that reportedly was concluded in December 1973. Their delivery shows Moscow's willingness to continue helping Tito modernize Yugoslavia's armed forces, notwithstanding the troubled political relations between Moscow and Belgrade during the past year.

The SA-6 and the SA-7 missiles have ranges of about 12 and 2 miles, respectively. The SA-7 is used by troops against low-flying subsonic aircraft and helicopters, and the SA-3 and the SA-6 are designed to defend against aircraft flying at low-to-medium altitudes. The SA-6 also provides Yugoslavia with a mobile air defense capability. These SAMs have been seen with several other East European armies and were used extensively by Egypt and Syria during the 1973 Middle East War. Since then Yugoslav military planners have considered the improvement of Yugoslavia's air defense a high-priority goal. Previously, the Yugoslavs had only the SA-2, which provides for area defense against aircraft flying at medium-to-high altitudes.

The delivery of the new Soviet equipment does not mean that Tito's modernization effort is complete. In recent weeks, Belgrade has played host to military delegations from France, Britain, and the US, and the Yugoslav chief of staff will visit Sweden this month. The Yugoslavs are apparently hoping to obtain the best

equipment available and to diversify their sources of modern arms. [redacted]

## FRANCE

### ARMS SALES BONANZA

The French arms industry is booming. Export orders reached a record high in 1974, and armament and aeronautic manufacturers are optimistic that exports will continue to grow over the next several years. French manufacturers took orders last year for at least \$2.5 billion in arms from the Third World nations alone, not including sales to the US and other NATO countries. Only the US sells more arms than France and the USSR, which are about on a par with each other.

The French government works hard for these sales because of their positive effect on France's balance of payments and on domestic employment. Money to modernize the French armed forces is limited these days, so the arms industry is especially dependent on export sales to stay healthy.

France can produce virtually all types of modern military equipment. Since 1966, it has exported to some 30 countries nearly 700 modern jet fighters, about 300 light and medium tanks, more than 1,100 armored personnel carriers, and some 70 self-propelled artillery pieces. The French sell a wide range of arms in Western Europe and the US, but in recent years they have turned more to the Third World. Since the Middle East war in 1973, they have been especially successful in selling arms to the Arabs, who placed orders worth nearly \$2 billion last year.

Using aggressive sales tactics, Dassault has kept its family of Mirage fighter planes at the forefront of export sales. Dassault is now clearing up a backlog of orders for some 230 Mirage

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III and 5s and is turning them out at a rate of 11 a month. At this pace, the production run will last until about December 1976. As sales of the Mirage III and 5 are winding down, interest in the F1 is rising. Deliveries of F1s to Spain and South Africa have begun, and initial deliveries to Greece are scheduled in the next few months. Arab purchasers probably will begin getting F1s sometime next year.

In 1974, Kuwait ordered at least 16—and possibly as many as 36—F1s. Major new sales of the F1 appear certain, following France's agreement in January to provide Egypt with new military hardware.

Libya is currently negotiating for 39 F1s, and Iraq has mentioned an interest in at least 50 Mirage jets. Dassault already has export orders for at least 75, and perhaps as many as 130 F1s. It currently is producing only about four F1s a month, although this output could be doubled or even tripled once the Mirage III and 5 are phased out.

The French are in an excellent position to sell tanks. The army recently completed supplying its units with AMX-30 tanks, and, except for small numbers of replacements and spare parts, all AMX-30 tanks now being produced could be exported. France could probably turn out up to 35 a month. Important sales last year included

130 AMX-30 tanks to Greece, 100 to Saudi Arabia, and 50 to Morocco.

The outlook for the sale of tactical missiles is also bright. Earlier this year, the US decided to purchase the Franco-German Roland low-altitude air defense missile. Paris hopes that the favorable impact from the US decision will enable it to make significant sales in other countries. The French also look to a possible NATO decision to make this missile a standard piece of armament for NATO countries because of its selection by the US, France, and Germany. Kuwait reportedly ordered some 4,000 HOT wire-guided heavy antitank missiles. Aerospatiale is preparing to produce some 500 a month by August 1977, and Paris hopes to find as good an export market for this system as for other antitank missiles produced in France—the SS-11, SS-12, Entac, and Milan.

Sales of French naval equipment have not kept pace with air and ground forces equipment. Nevertheless, France does have some good prospects, especially for fast missile patrol boats and electronics equipment. Last year the Greeks bought four La Combattante II patrol boats equipped with MM.38 Exocet antiship missiles.

AMX-30 tanks



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## POLISH ADMINISTRATIVE REFORMS

Party chief Gierek will reportedly unveil to a party Central Committee plenum next week plans of the regime for a sweeping territorial-administrative reorganization. [redacted]

[redacted] the country's present administrative structure—17 provinces and 5 cities with province status—will be replaced with approximately 50 smaller units. The nation's 392 counties will be abolished. The changes, the most far-reaching since Gierek came to power in December 1970, will affect party and government structures at the provincial and local levels. The end result will be greater control from Warsaw.

[redacted] the changes reflect the leadership's determination both to break the power of close-knit local party and state organizations and to improve economic performance. The actions and inaction of local officials have allegedly hindered implementation of the regime's programs. Foot-dragging by local party and government authorities has been endemic in postwar Poland, and Gierek has worked hard to overcome the problem. In his first years in power, he made large-scale personnel changes, and in 1973 he radically restructured the lowest level of administrative units. He now apparently feels that those changes were not sufficient.

The leadership's plans will inevitably draw opposition from individuals directly affected, but there is no indication that these critics will threaten Gierek's position. The party chief is, nonetheless, taking the precaution of billing the reorganization as a move toward decentralization and a means of bringing government closer to the people.

Gierek has also apparently speeded up his timetable for implementing the reforms. Initial reports indicated that the new system would go into effect this fall. More recent reporting, however, says that parliament will authorize the changes in late May and will call for their implementation on June 1. One journalist has suggested that the new timetable indicates that

the leadership's initial soundings had turned up little opposition. Gierek could also want to strike quickly in order to prevent a coalescence of opposition and to minimize bureaucratic inefficiency during the transition period. Gierek, a shrewd political infighter, appears able to carry out the changes and as a result is expected to go to the party's congress in December in an even stronger position than he now enjoys. [redacted]

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## USSR: CAR PLANT EXPANSION

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The USSR is expanding the VAZ car plant at Tolyatti (Togliatti) to produce an "agricultural car," an all-wheel-drive version of the Zhiguli, the Soviet Fiat. The plant's production area of 1.5 million square meters is being enlarged by about 20 percent to allow production of 150,000 or more cross-country vehicles a year, raising total annual capacity at VAZ from the current 660,000 units to an estimated 800,000 units.

Much of the equipment for the new facility will probably be acquired from Western Europe; some will be bought in the US. The Soviets are negotiating with a US firm for machinery to manufacture wheel and brake drums. Generators for the power plants and heat treating furnaces for the foundry and forge have already been ordered from the US.

The decision to build an agricultural car represents an abrupt turnabout in Soviet plans. Until at least mid-1973, the Soviets were planning to double the size of the VAZ plant and to build standard Zhiguli passenger cars for sale in world markets. In April 1973, Foreign Trade Minister Patolichev stated that Fiat, the Italian firm that helped build the original plant and worked out plans to increase the capacity to 1.2 million cars a year, had agreed to assist with the expansion. Negotiations with Fiat were terminated a few months later without explanation.

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Little is known about the decision to shelve the original plan, but Moscow was probably discouraged by poor market prospects for Soviet cars in non-communist countries. Car surpluses were building up in Western Europe and the US because of recession and inflation, and gasoline was scarce and high priced.

As a result, the Soviets decided to concentrate on meeting urgent domestic needs for an all-wheel-drive car usable on rural roads and Soviet farms. Moscow wants to put more cars into rural areas as incentives to farm workers. The conventional passenger cars can not be used on dirt roads during winter and in rainy seasons, but an all-wheel-drive car can be driven over extremely poor roads and in roadless areas. Moscow may see a market for this vehicle in developing countries as well.

The government appears to be reserving its option to expand the plant according to its original plan. Much of the area designated for the larger expansion, as worked out by Fiat, is being held in reserve. The new assembly building is separate from the plant's main assembly lines, leaving intact for future expansion adjacent areas that had been designated for expansion under the original plan.

The Soviets have said little about the expansion of VAZ, but [redacted] 25X1  
[redacted] construction was started over a year ago and is now more than half finished. Most of the new area is under roof, but no equipment has been installed—some is scheduled for delivery in mid-1975. Production is unlikely before the last half of 1976. [redacted]

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## PERSIAN GULF: GETTING TOGETHER

The major states of the Persian Gulf continue to move toward closer regional cooperation in the wake of the reconciliation accord signed by Iran and Iraq in March. A series of bilateral meetings in recent weeks among the leaders of Iran, Iraq, and Saudi Arabia has raised the possibility of an early summit at which a principal topic would be a collective security pact.

Iraqi leader Saddam Husayn Tikriti reportedly proposed such a pact during his visit to Iran late last month. The Iraqi proposal is said to provide for common action to meet both "local" and "external" threats to area states. Baghdad's initiative suggests a continuing willingness to adopt a more cooperative approach to regional affairs—a trend the Shah is anxious to encourage.

The Shah has long regarded the conservative Arab states in the Gulf as ripe for radical subversion. Prior to the accord with Iraq, he tried unsuccessfully to foster his own regional security arrangement that excluded—indeed, was largely aimed against—the leftist regime in Iraq. The Shah's scheme foundered on traditional Arab-Persian rivalry, on distrust of Iranian intentions, and on the reluctance of conservative Arab leaders to antagonize Baghdad by joining non-Arab Iran in such an arrangement. The comprehensive agreement reached by the Shah and Saddam Husayn in Algiers last March, the recent leadership change in Saudi Arabia, and the sponsorship of a security pact by the Baghdad regime itself have altered the situation considerably. A Gulf-wide pact may now be possible, provided the trilateral relationship among the Shah, Saddam Husayn, and Prince Fahd of Saudi Arabia continues on a positive course.

Any such arrangement would probably include a mutual nonaggression pledge, an agreement to consult on Gulf problems, and some formula expressing the common interest of Gulf

states in excluding foreign powers from interfering in area affairs. Noninterference by foreign powers has been a common theme in the public statements of Iranian and Iraqi leaders since the signature of the Algiers accord.

As a possible trade-off, Baghdad might agree to limit the Soviet navy's access to Iraqi ports in return for Iranian pressure on Bahrain to terminate the small US naval presence there. The Shah has justified the presence of the US navy Middle East Force only as a counter to Soviet naval activity in the Gulf. It would be difficult for him to push the Iraqis to exclude the Soviets—long an Iranian goal—without also supporting exclusion of the US. The Shah would consider he had gained by such a trade-off, partly because it would leave the Iranian navy the most powerful in the area.

Iraq's interest in a Gulf security arrangement is less clear. Baghdad may see a broader security pact as a means of obtaining a nonaggression agreement with Iran. Iraq, moreover, is trying to project an image of a powerful, yet responsible Arab state.

Saddam Husayn may also hope to trade Iraqi cooperation on Gulf security for Iranian or Saudi help in securing territorial concessions from Kuwait. Baghdad continues to press Kuwait to cede two islands flanking the approaches to Iraq's port of Umm Qasr.

The attitude of Saudi Arabia, whose new leaders recently played host to the Shah, would be critical in determining how the smaller Arab states around the Gulf—particularly Qatar and Bahrain—react to any proposals concerning a security pact. The leaders of Qatar and Bahrain generally remain skeptical about both Iraqi and Iranian intentions. The Amir of Qatar recently told a US official that he had no illusions about Baghdad ending its attempts to subvert Gulf states. 25X1

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## MIDDLE EAST - EC: DIALOGUE PICKS UP

The often stalled "dialogue" between the EC Nine and the Arab states is back on track again now that the Arab League has accepted the EC's formula for representation of the Palestine Liberation Organization at the talks. The Palestinians will be included in a group of "denationalized" Arab experts. An organizational meeting of EC and Arab representatives has been arranged for June 10-15 at Arab League headquarters in Cairo.

In addition to the Palestinian question, preparations for the talks had been held up by EC insistence that political issues be excluded and that discussions follow the proposed agenda of economic, technical, financial, and cultural cooperation.

Although the League has accepted the compromise on the Palestine Liberation Organization, it has not accepted the exclusion of political topics from the dialogue. EC officials are to meet with the League secretary general next week to seek assurance from the Arabs that they will not use the June meeting as a sounding board for contentious political statements. The Arabs may well give such assurance, but they almost certainly will not rule out raising political matters at later sessions.

The EC hopes for a businesslike organizational session and has proposed that several subcommittees be set up to deal with specific substantive matters. On May 24, the Arabs are scheduled to meet to formulate their positions for the initial session.

The dialogue has become an increasingly significant and topical issue. It has figured prominently in the rash of recent high-level visits between Arab and Israeli leaders and the Europeans, with the Arabs and the Europeans probing each other's intentions. Indicative of the concern of the Europeans to improve relations in the Middle East and the Mediterranean nations are the visits of the Italian and Dutch foreign ministers to Egypt, the West German foreign minister and economics minister to Egypt, Saudi Arabia, and Libya, and French President Giscard to Morocco. Paris also had a visit by Israeli Foreign Minister Allon last week.

During his visit, Allon raised no objections to the EC-Arab dialogue, as long as there is a concurrent EC-Israeli dialogue. An industrial free-trade arrangement between the EC and Israel will in fact be signed on May 11 and enter into force on July 1, although some provisions will be held in abeyance until Italian reservations about easing EC tariffs for certain Israeli agricultural products are overcome.

Irish Foreign Minister FitzGerald during May 19-25 will visit several Middle Eastern countries in connection with Ireland's current presidency of the EC Council and will report back to the community on the relation of Middle Eastern developments to the dialogue. His report may also help in current discussions among the Nine about a common position on issues involved in a Middle East peace settlement. Despite French reservations, the Irish ambassador to the US was instructed to ask

April meeting of the Arab League Council



Washington if it would like to inform the Nine about its future strategy in the Middle East in order to establish the basis for possible EC co-operation.

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Security forces in the city, both black and white, are few in number and poorly trained. They do not have the capability of restoring order if serious clashes occur. Portuguese troops respond only under extreme provocation in the absence of authoritative directives from the transitional government, which is hampered by divided loyalties.

## ANGOLA: MORE VIOLENCE

Fighting flared in Luanda again last week between forces of the Popular Movement for the Liberation of Angola and followers of the National Front for the Liberation of Angola, the two principal nationalist groups in Angola's transitional government. It was the second major outbreak of violence there in less than two months. It lasted a week and raised new fears of civil war or a coup attempt by one of the liberation groups.

The National Front apparently believed the Popular Movement was planning widespread demonstrations and possibly a coup attempt on May Day. Clashes between the two groups led to widespread looting and rioting, first in one of the city's predominantly African shanty sections and later in adjacent, largely white, residential areas. Altogether, some 1,000 persons may have been killed; a similar outbreak in March resulted in over 200 deaths.

Although racial hostility was not a prominent factor in earlier disturbances, it was this time and is now causing considerable tension in the city. All three of Angola's liberation groups blamed "white reactionaries" for much of the violence. A number of whites did engage in sniping and small-scale terrorism against blacks, but apparently largely out of fear for their safety. Portuguese forces, which in the past have hesitated to become involved, intervened in a number of instances to protect whites and their property. Early this week, the US consul general, expecting further violence with racial overtones, evacuated all official American dependents.

The representatives in the government of the Popular Movement and the National Front respond to such fighting in terms of how best to advance the interests of their own organization. Despite their public calls for a cessation of hostilities, they drag their feet as long as their group is not losing ground. Thus, the burden of restoring order rests with the Portuguese and the National Union for the Total Independence of Angola, the smallest of the three nationalist groups.

A new round of violence could come at any time. Both the National Front and the Popular Movement have been smuggling large quantities of arms into the city, including heavy mortars, artillery pieces, and rocket launchers, which their mostly inexperienced personnel use indiscriminately.

One possibility for averting full-scale war between the nationalist groups would be an agreement among their leaders to renegotiate the original independence accord with Portugal in such a way that the three groups will not feel the need to compete for political power. Portuguese officials in Luanda are actively promoting a meeting of the top nationalist leaders to discuss this possibility. The Popular Movement, which is losing political ground, might be willing to strike a new deal that included no postponement of the national elections scheduled for late October. The other groups, however, sense the Popular Movement's weakness and probably would not go along unless they are pressed hard by the leaders of neighboring African states who provide them with important assistance.

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Mobutu

## ZAIRE: POWER BASE

President Mobutu, who has now been in power almost ten years, has given Zaire a degree of political stability that contrasts vividly with the chaos that followed independence in 1960. In recent years, Mobutu has concentrated on increasing the political effectiveness of Zaire's two major institutions—the single national party and the army.

The Zairian leader has devoted particular attention to the Popular Movement of the Revolution. He had established the party in 1967 to fill the void resulting from the moratorium on political activity that he had imposed upon taking power two years earlier. Initially, Mobutu used the party mainly to provide patronage and perquisites to help ensure a loyal bureaucracy, but in 1970, it was designated the "supreme institution" in Zaire's political structure. Since then, representatives of the army, the national police, Zaire's single labor union, and the court system have been brought in.

Constitutional amendments adopted last year formally subordinated the executive, legislative, and judicial branches of government to the party. For example, the constitution now makes the president of the party, who is elected by its political bureau, the president of the country as well. His tenure is limited to two five-year terms, but this does not apply to Mobutu.

The party has not, however, become the mass movement Mobutu had hoped. It has produced few leaders capable of organizing at the grass-roots level, even though by law all citizens are automatically members of the party. Nevertheless, the party has become useful to Mobutu as an instrument for indoctrinating political leaders.

The army has presented special problems. Its ability to carry out administrative and security responsibilities throughout the country has been uneven at best. As commander since 1961, Mobutu is well aware of the army's shortcomings—a lack of discipline and an earned reputation for brutality. He has deliberately but discreetly dissociated himself from the image of army strong man and concentrated instead on his role as party leader. Still conscious, however, that his power depends on the military, he has given the army a voice in national affairs. At the same time, he has reorganized the senior officer corps several times to make it dependent on him.

Mobutu wants to draw the army more actively into social and economic development efforts, to raise its "political consciousness," and increase its discipline. Aside from the obvious advantages of using otherwise unemployed soldiers on economic projects, Mobutu probably hopes to keep the troops too busy to engage in the kind of intrigues and conflicts that the military indulged in during the sixties. Early this year, he ordered the army to give priority to agricultural projects, arguing that a military establishment that does not contribute to the nation's economy is a luxury developing nations cannot afford.

The army has already been officially integrated into the party, and a group of 500 officers, who will be political commissars, is scheduled to attend a special political indoctrination course later this month. Mobutu borrowed the political commissar idea from the Chinese and North Koreans, but their several hundred military advisers in Zaire are not allowed to engage in political proselytizing.

Army leaders apparently are accepting their new responsibilities willingly. Whatever misgivings they may have had about politicization seem to have been overcome by the fact that they will lead the program. They also expect the army's defense mission to be enhanced by sizable deliveries of military equipment from Peking and Pyongyang. The army's logistic weaknesses and lack of experience, however, may be inhibiting factors in carrying out agricultural responsibilities.

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## VENEZUELA: OIL REVERSION

The timing of the move and the role of the private oil companies after nationalization are the only major problems that must be worked out before Caracas takes over the foreign oil industry in Venezuela.

There is no opposition within the congress to the principle of nationalization, only to some of the terms accompanying the government's take-over of the \$1.5-billion industry. Although the governing Democratic Action Party, which controls congress, could ram the bill through both chambers, President Perez has placed great emphasis on achieving what he calls "a national

consensus." Because of his attitude, the President appears willing to compromise and tolerate objections by opposition parties to key sections of the bill, providing he is given complete flexibility in working out arrangements with the oil companies should he consider this to be in the national interest.

Formal congressional debate will probably begin around May 15, with a final vote likely in early July. Perez might select either Independence Day, July 5, or the anniversary of Bolivar's birthday, July 24, on which to announce the nationalization.

Perez



In the meantime, most congressional attention will center on Article 5, which has become the focal point of political controversy. This article would permit the private oil companies to participate with the state in "association agreements" after nationalization. Perez has been adamant on this point and has personally formulated the language to be used in the draft bill.

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Most of the small leftist political parties oppose any role for the private companies following nationalization. Leaders of the major opposition Social Christian party of former president Rafael Caldera have eschewed doctrinaire positions on the issue, a possible reflection of the success of the government's efforts to gain their support on the general terms of nationalization. Perez and Caldera have held private discussions and reportedly have resolved some of their problems.

The general outlines involve the submission by a "broker" party—the Democratic Republican Union (URD)—of the compromise proposal, specifying those sectors of the petroleum industry in which private capital may participate. Such a compromise would satisfy Perez' strong desire for flexibility and would permit the Social Christians to support nationalization and contend that it took a nationalistic stand on the bill. Perez' reward to the URD might include financial assistance,

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which it badly needs, and possibly some government jobs.

Most of the debate in the coming weeks will be keyed to the domestic audience. The rhetoric will be strongly nationalistic, and certainly anti-company in tone. Nevertheless, most knowledgeable Venezuelans, including major party leaders, now accept the need for foreign assistance to operate the industry after nationalization. Indeed, some remarkably frank talk has been heard recently from normally complacent Venezuelan officials who admit that Venezuela is not capable of taking over the international marketing of its oil. They believe that it will be necessary to establish "areas of assistance" in such activities as "international marketing, selection and purchase of equipment and materials, and technological research."

Official talks between the Perez administration and the oil company representatives will be resumed after the congressional debate concludes in the next few weeks. At that time, the government will announce the compensation arrangements. For now, they are lying low and hoping the current reasonable mood and the desire for an amicable working relationship will persist. [redacted]

## CARIBBEAN: MULTINATIONAL FLEET

On April 16, representatives of 17 Caribbean and Central American countries completed a preliminary, technical meeting on a Mexican proposal to establish a Multinational Caribbean Fleet. Cuba attended, but the US and the British, Dutch, and French dependencies were excluded. Supporters believe such a fleet would foster regional cooperation and provide additional, and possibly cheaper, freight service. At least eight governments represented at the Mexico City meeting remain skeptical, and some may decline to participate. A ministerial-level meeting to resolve remaining problems and to formalize agreement on the new service is cur-

rently scheduled for May 25-28 in San Jose, Costa Rica.

As now envisioned, the fleet will be funded with a \$100-million stock offering, 60 percent reserved for participating governments and 40 percent for private investors. The stock earmarked for the 17 governments will be offered initially in blocks valued at \$2.2 million each, but governments can participate by investing as little as \$500,000. Any government shares left unsubscribed, either because a country limits or declines participation, will be offered to the remaining members with an important restriction—no single country can control more than 12-15 percent of the total stock issue. The remaining 40 percent of the stock will be offered to private investors, principally labor unions and companies with headquarters in one or more of the 17 countries. When a fund of \$20 million has been reached, the group will begin purchasing and leasing ships, starting regular service by the end of 1975.

Trinidad and Tobago remains the most vocal of the detractors. Prime Minister Eric Williams has denounced the fleet as a vehicle for the "recolonization" of the Caribbean by Mexico, Venezuela, and Colombia. Guatemala, Honduras, Nicaragua, El Salvador, the Dominican Republic, Jamaica, and Colombia either share Williams' fear or object to the venture for other reasons. Several countries wish to protect their existing or planned national fleets, at least three fear Cuban participation, and others are convinced that the shipping service will prove unmanageable and turn into an expensive debacle. 25X1

Cuban participation could pose a problem. US law calls for limited economic sanctions against countries trading with Cuba or allowing their ships to enter Cuban ports. If the member countries attempt to guarantee freight for the new line by legislation or other non-competitive measures, they could find themselves the object of retaliatory action by the other maritime nations whose ships operate in the area. [redacted]

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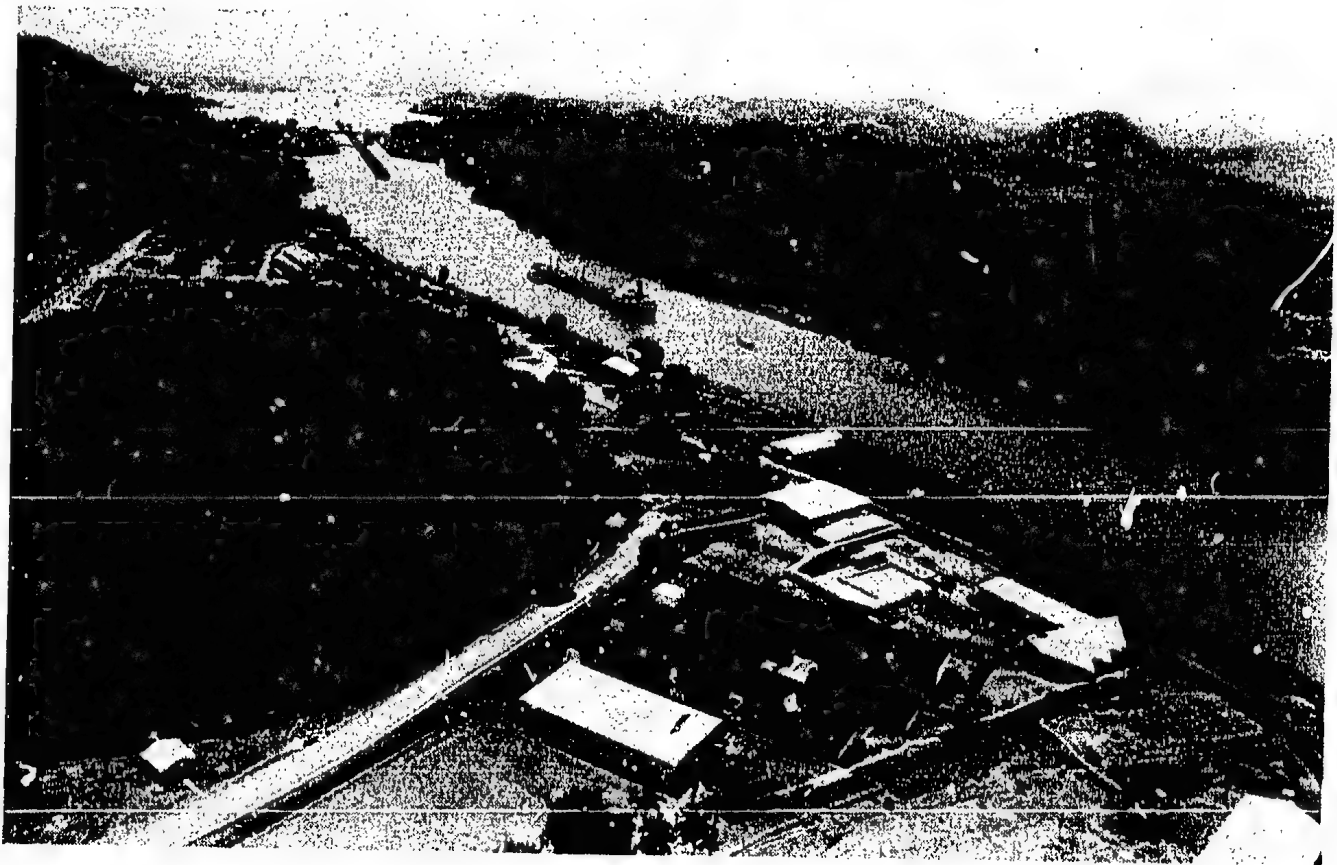
## PANAMA SEEKS TREATY SUPPORT

Sensing that a critical point is at hand in the canal treaty negotiations, Panamanian leaders believe that the outcome might turn on having world opinion on their side. Top government officials are engaging in shuttle diplomacy in quest of new support and plan to use the current OAS General Assembly as a forum.

Foreign Minister Juan Tack has set the pace for the campaign. During the last several weeks, he has visited the capitals of Argentina, Brazil, Colombia, Peru, Uruguay, and Venezuela. He is now in Washington to present Panama's case at the OAS meeting. Chief of state General Omar Torrijos personally handled the discussions in Costa Rica, El Salvador, and Guatemala. Panamanian missions eventually will go to all the remaining Latin American countries as well as to any international meetings where expressions of support might be garnered.

Tack and his colleagues are effectively using the theme that ending the US "colonial" presence in Panama is an objective that all Latin American countries should share and that the handling of the canal treaty negotiations will be an important test of Washington's sincerity in its desire for a new relationship with the region.

General Torrijos has always believed that only by keeping up direct and indirect pressure could he convince the US government that it should give high priority to reaching a new relationship with Panama on the canal issue. During the past two months, Panamanian officials have said that the campaign for international support has been given new impetus by the need to counter mounting opposition in the US to any change in the canal situation. The Panamanians are chiefly concerned about what they consider a campaign by some US legislators and residents



of the Canal Zone to sabotage the negotiations. In addition, the Panamanians fear that world events may divert official US attention from the canal question, or even worse, that they could lead to a hardening of the US negotiating position or even a decision to abandon the negotiations on the grounds that the US public would not now tolerate giving up control over the canal.

While still firmly committed to completing the treaty negotiations, Panamanian officials now are seriously considering the implications of a stalemate or breakdown and what they can do to lessen the chances that either one will take place. Lieutenant Colonel Manuel Noriega, chief of the G-2 section of the National Guard and a close adviser to General Torrijos, has urged US officials to continue to work toward a treaty and not to be preoccupied by the problem of Congressional ratification of the pact. Noriega maintained that the prospects for avoiding a confrontation between the two countries would be much better if a new treaty were delayed or even rejected by the Congress than if no treaty were agreed to at all.

The pro-government Panamanian press is also trying to temper earlier public optimism about rapid completion of a new treaty. In articles focusing on Tack's travels and declarations, the Panamanian media have maintained that although major advances have been made in the negotiations, the talks may go on for many more months, or even years, if that is what it takes to fulfill the country's basic aspirations for sovereignty over the canal. Some articles aver that in view of a potential impasse, Panama must prepare for a "fight for national liberation." Government officials have not gone that far, but they do believe that it is essential to build international support for their side in case any confrontation should develop. This belief is a major reason behind the Panamanians' continuing effort to gain votes for a seat on the UN Security Council this fall.

## BRAZIL: CONCESSIONS

The government's repeated use of a particularly stringent decree—one which it had previously avoided invoking—has aroused fears that President Geisel's program of liberalization is in danger.

The President recently by-passed conventional laws and courts and used Institution Act 5, which pertains to matters of national security, to punish several local officials for corruption. While these cases by themselves drew relatively little attention, Geisel's subsequent use of the act to intervene in the local politics of a remote state aroused a good deal of concern. The President went over the heads of politicians in the capital of Acre State to impose a new mayor, basing his decision on certain provisions of the act.

These moves, which some view as a concession to opponents of liberalization, are probably meant to reassure the conservatives that the administration retains a firm, vigilant stance. Moreover, it can be seen as a warning to politicians that there are still limits on their freedom of action. In using the institutional act, Geisel has gone beyond his earlier efforts—largely verbal—to mollify conservatives and caution politicians.

The President's most persistent day-to-day preoccupation seems increasingly to be one of devising ways to carry out his liberalization program without becoming the captive of either its supporters or its enemies. The latest moves, however, are likely to encourage the conservatives to press for still more concessions.

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## CUBAN SUBVERSION STILL AN ISSUE

The OAS General Assembly convened May 8 in Washington with the issue of sanctions against Cuba still unresolved. Some governments have linked their willingness to end the sanctions to a change in Cuba's position on subversion in the hemisphere.

Meanwhile, Cuba is continuing to score diplomatic and economic gains in Latin America. Its support for revolutionaries in the hemisphere is at the lowest point since Castro's rise to power, reflecting Havana's desire to gain respectability and its recognition that revolutionary conditions are absent in countries whose governments Castro opposes. Castro was expressing his awareness that Cuban efforts can not be the catalyst for revolution when he told a group of Mexican journalists in early January, "We cannot extend our private revolutionary objectives to Latin America because I think a revolution belongs to the people of each nation and no one can conduct it for them."

To promote normal government-to-government relations with the countries that supported the lifting of sanctions at the Quito meeting of OAS foreign ministers last November, Havana is loosening ties with the few illegal and guerrilla groups it still assists. Even in coun-



tries hostile to the Castro regime, Havana no longer sponsors insurgent groups, nor are Cubans sent abroad as advisers or participants in revolutionary action. Financial, material, and training support for Latin American revolutionaries have been reduced to the lowest levels since 1959. The guerrilla training that Cubans still offer is aimed at maintaining small nuclei of paramilitary specialists for future contingencies, rather than as part of plans to infiltrate guerrillas for the purpose of armed subversion.

Eschewing subversion in these countries is a tactical decision, however, and the Cuban leadership reserves the option in the future to support well organized armed groups that demonstrate an ability to attract broad popular support. The Cuban leadership apparently has interpreted the overthrow of Chilean president Allende as proof that there is no peaceful road to socialism, and evidently feels that in the long run a true social revolution in Latin America can be achieved only through the use of violence.

A draft Cuban constitution released in early April reflects this attitude. It specifically acknowledges:

- The "right of peoples to reject imperialists' violence with revolutionary violence."
- The "legitimacy of wars of national liberation as well as armed resistance to aggression and conquest."
- Cuba's right and internationalist duty to aid "the besieged and the peoples who fight for their liberation."

For the sake of marginal subversive groups, however, Castro is unlikely to compromise the formal ties he has worked so persistently to acquire in Latin America or to endanger prospective ties with governments that may soon restore relations with Havana. He will be mindful of Cuba's improving image throughout the region and anxious to capitalize on it.



the Soviets have recently complained of Chinese provocations. We have no direct evidence of any unusual Chinese actions, but the Soviets increased their reconnaissance of the border during January and February. Since 1970, both sides have slowly added to their forces near the border, but neither could launch or maintain a major offensive without reinforcements.

Thirty-four manned Soviet ground divisions are stationed along the Sino-Soviet border and in Mongolia. Most of these are opposite

northeast China. These divisions and their support units total about 365,000 men. The Soviet tactical air force has some 1,150 combat aircraft in the same general area. About 40 or 50 per cent of these divisions are considered to be fully combat ready. The others would have to be bolstered by reservists and vehicles before becoming combat ready.

In the border area, the Soviets have an estimated 10,000 tanks and 235 tactical missile launchers, among them 36 for the SS-12 Scale-board missiles. The SS-12, a mobile surface-to-surface missile with a range of 500 nautical miles, is the most advanced Soviet tactical missile. The size of the tactical air force along the border has not been increased, but older aircraft are being replaced. The MIG-23 Flogger has

appeared in limited numbers, and at least six MIG-25 Foxbat high-altitude reconnaissance aircraft are now stationed at Nikolayevskoye.

The Soviet border force, with its greater firepower, mobility, and air support, is clearly superior to China's, but is still primarily a defensive force. It is more than strong enough to handle any Chinese threat to the USSR, but not strong enough for a full-scale land invasion deep into China.

### Chinese Capabilities

Peking has about 1,600,000 men—about 115 combat and combat-support divisions—in the four military regions bordering the USSR and Mongolia, in addition to large numbers of paramilitary personnel. Some of China's small force of nuclear missiles apparently is intended as a deterrent or a limited response to any Soviet use of tactical nuclear weapons.

About one third of China's ground forces are in the northeastern and north central portion of the country. The forces in the western regions remain comparatively small, despite efforts since 1970 to expand them. The Chinese keep major units well back from the border; Soviet forces are close in to defend the vital Trans-Siberian rail line.

The Chinese have built numerous dug-in positions at the first defensible terrain along likely invasion routes from the USSR and Mongolia. They have also added a number of new border posts to improve their early warning capability against ground attack.

China's defense strategy is based on the knowledge that Chinese forces are inferior to those of the Soviets in both quantity and quality of military equipment. For example, the Chinese have about 4,000 tanks in the four northern regions compared to some 10,000 in the Soviet military districts opposite them. The Chinese have about 2,000 air defense and tactical aircraft, but most lack the night and all-weather capabilities of Soviet aircraft.

Peking does not foresee a war with the Soviets in the near future. China has neither the manpower in place nor the logistic system to sustain a major attack, but its forces are capable of defending against a Soviet invasion as long as only conventional arms are used.

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## JAPAN: WAGE OFFENSIVE BLUNTED

Responding to strong economic and political pressure, Japanese labor is accepting much smaller wage hikes than initially demanded. Settlements in the first phase of this year's wage offensive averaged 13 percent, compared with demands of 30 percent or more. This is a major victory in Tokyo's two-year battle against inflation. Although the settlements open the way for a more rapid shift to a national policy of economic expansion, Tokyo still intends to move cautiously.

The 33-percent wage hike last year was largely swallowed up by increases in living costs. Japanese workers consequently sought huge increases—typically 30 percent—at the start of the 1975 wage offensive. Their negotiating position has been seriously undercut by rising unemployment, a record bankruptcy rate among small firms, and a severe profit squeeze in most industries. With the backing of business, Tokyo reinforced these market elements by setting an informal 15-percent limit on hourly pay hikes in 1975.

Thus far, all major unions have gone along with the government. In industries hard hit by the recession, settlements have been well below the guideline. Auto, steel, and shipbuilding workers recently settled for pay increases of about 15 percent instead of a requested 30 percent. The seamen's union also accepted a 15-percent gain, after demanding 48 percent. In the severely depressed textile industry, major unions were content with increases averaging 7 percent, and others went along with as little as 2 percent. Electrical appliance workers appear ready to settle for an increase of 9 percent.

Settlements covering one third of the industrial labor force have already been completed. Negotiations with government and transport unions will take place this month, and with retail clerks and other service workers in the summer. Settlements are expected to range from 10 to 14 percent.

Although negotiations have been intense, unions generally are adhering to the no-strike

Labor leaders march in recent labor offensive demonstration



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tradition. Transport workers, the chief exception, probably will strike for two or three days, as usual.

These settlements should take much of the steam out of Japan's wage-price spiral. Unit labor costs are expected to rise only 10 percent, compared with 28 percent in 1974. This cost increase will raise wholesale prices over the next 12 months by roughly 4 percent, and consumer prices a little more than that. For 1975, as a whole, consumer prices will probably average 8-10 percent higher than in 1974.

In real terms, wages probably will be up 3-4 percent this year, half the long-term average. The resulting gain in consumer demand will provide a small impetus for economic growth in the latter part of the year.

Even though wage gains are being pegged at a reasonable level, Deputy Prime Minister Fukuda continues to take a cautious stand on stimulating the economy. Short-term plans call only for a small acceleration of public works spending and a gradual easing of credit restrictions. Under these circumstances, economic recovery will be extremely slow, particularly since excess capacity and large inventories continue to depress investment.

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